

INDUSTRY OVERVIEW

As the largest pork company in the world, our business is closely tied with the hog industry in each market that we operate. Supply and demand drive the movement in prices of hog and meat and consequently impact our inputs (costs) and outputs (sales). In China, the average hog price was RMB12.6 (equivalent to approximately US\$1.9) per kilogram (“kg”) in the Period, a decrease of 19.2% from that of the nine months ended September 30, 2017 (“9M 2017” or the “Comparable Period”) as a result of sufficient market supply. Since August this year, there were certain cases of African Swine Fever outbreak in some provinces or autonomous regions. According to the announcement of the Ministry of Agriculture and Rural Affairs of the People’s Republic of China, such cases were under effective control. In the U.S., the average hog price and pork cutout value for the Period decreased by 10.1% to US\$1.1 per kg and by 11.9% to US\$1.7 per kg respectively. Such decreases were due to the increase in supply and trade disputes between U.S. and certain pork importing countries.

RESULTS OF OPERATIONS

	Packaged meats	Fresh pork	Hog production <i>US\$ million</i>	Others ⁽³⁾	Total
9M 2018					
Revenue⁽¹⁾					
China	2,670	2,679	6	205	5,560
U.S.	5,546	3,598	465	–	9,609
Europe ⁽²⁾	628	520	41	227	1,416
	<u>8,844</u>	<u>6,797</u>	<u>512</u>	<u>432</u>	<u>16,585</u>
Operating profit/(loss)					
China	564	126	3	21	714
U.S.	556	2	(79)	(73)	406
Europe ⁽²⁾	39	10	33	6	88
	<u>1,159</u>	<u>138</u>	<u>(43)</u>	<u>(46)</u>	<u>1,208</u>

	Packaged meats	Fresh pork	Hog production <i>US\$ million</i>	Others ⁽³⁾	Total
9M 2017					
Revenue⁽¹⁾					
China	2,489	2,796	8	165	5,458
U.S.	5,560	3,742	328	–	9,630
Europe ⁽²⁾	476	503	34	184	1,197
	<u>8,525</u>	<u>7,041</u>	<u>370</u>	<u>349</u>	<u>16,285</u>
Operating profit/(loss)					
China	528	76	19	(22)	601
U.S.	488	276	(1)	(93)	670
Europe ⁽²⁾	14	3	90	1	108
	<u>1,030</u>	<u>355</u>	<u>108</u>	<u>(114)</u>	<u>1,379</u>

Notes:

- (1) Revenue refers to net external sales.
- (2) Europe denotes mainly our operations in Poland and Romania.
- (3) Other revenue primarily represents sales of ancillary products and services. Other operating loss includes certain corporate expenses.

Packaged Meats

During the Period, our packaged meats business performed well on a group-wide basis. Sales volume increased by 2.4% as we attained growth in all markets in which we operate. In China, driven by the strong performance of our premium products, our sales volume in China increased by 2.2% over that of the Comparable Period. Revenue of our packaged meats was 3.7% higher in the Period. Apart from volume expansion, the increasing average sales price despite the downward trending hog prices was another contributor. Operating profit of our packaged meats increased 12.5% as compared to the Comparable Period. It was because favorable raw material costs and increase in revenue supported us to increase our inputs in product upgrade in China, to cope with the cost pressure related to wages and transportation in the U.S., as well as to achieve growth in overall margin.

Fresh Pork

Total number of hogs processed in the Period increased by 4.3% over that of the Comparable Period. The growth was driven by the volume expansion of 19.3% in China as a result of our effort in increasing the utilization of our existing processing facilities. External sales volume of fresh pork was about that of the Comparable Period. Revenue from fresh pork during the Period reduced by 3.5% as hog prices decreased. Operating profit of fresh pork went down significantly by 61.1% due to the decline in the operating profit in U.S., which outweighed the growth in our operating profit in China and Europe. Such results showed that the issues of oversupply and trade disruptions suppressed the price of pork to a greater degree than the price of hog and led to erosion of our margin. On a positive note, our business in U.S. improved in the third quarter of this year and turned the operating loss in the first half into operating profit in the Period. The growth of operating profit in China and Europe in the Period were as high as 65.8% and 2.3 times, respectively.

Hog Production

During the Period, hog production volume increased by 0.8%. Revenue from hog production also increased by 38.4% due to increased grain sales and more favorable hedging results, partially offset by lower market prices for hogs. Operating loss in the Period was US\$43 million (Comparable Period: Operating profit of US\$108 million) as hog prices were lower in all markets. Particularly in the U.S., operating loss increased by US\$78 million even though our hedging program was able to mitigate part of the underlying business loss.

OUTLOOK

Global political economic climate and industry landscape continued to evolve. The over-supply and trade issues impacted our operation in the U.S. However, being a geographically diversified and fully integrated consumer goods company with branded packaged meats as our core business, we build strong resilience from our distinctive market position. We will also proactively coping with such challenges and constantly strive for unceasing growth by resources integration, volume expansion as well as operational improvement.

REVIEW OF FINANCIAL INFORMATION

The Group's financial information for the nine months ended September 30, 2018 is unaudited, but has been reviewed by the audit committee of the Company.

By order of the Board
WH Group Limited
Wan Long
Chairman and Chief Executive Officer

Hong Kong, October 30, 2018

As at the date of this announcement, the executive Directors are Mr. WAN Long, Mr. WAN Hongjian, Mr. GUO Lijun, Mr. SULLIVAN Kenneth Marc and Mr. MA Xiangjie; the non-executive Director is Mr. JIAO Shuge; and the independent non-executive Directors are Mr. HUANG Ming, Mr. LEE Conway Kong Wai and Mr. LAU, Jin Tin Don.